1039

Y 4
F76/2
C16/2
977

DOCUMENTS

DEC 22 1977

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

GOVERNMENT
Storage

95th Congress
1st Session

COMMITTEE PRINT

CANADA-UNITED STATES INTERPARLIAMENTARY GROUP

REPORT

ON THE

EIGHTEENTH MEETING, HELD AT VICTORIA, BRITISH COLUMBIA MAY 27–31, 1977

BY

Senator WILLIAM D. HATHAWAY, *Chairman*

OF THE

SENATE DELEGATION



NOVEMBER 1977

Printed for the use of the Committee on Foreign Relations

U.S. GOVERNMENT PRINTING OFFICE
98-986 WASHINGTON : 1977

KSU LIBRARIES
A11900 916649

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

SENATE DELEGATION

WILLIAM D. HATHAWAY, Maine, *Chairman*

LEE METCALF, Montana
MIKE GRAVEL, Alaska
JOHN C. CULVER, Iowa
PATRICK J. LEAHY, Vermont
JOHN A. DURKIN, New Hampshire
PAUL S. SARBANES, Maryland

CARL T. CURTIS, Nebraska
TED STEVENS, Alaska

ART KUHL, *Staff Associate*
A. E. (BUDDY) KENDRICK, *Staff Associate*
LINDA PUGLISI, *Secretary*

LETTER OF TRANSMITTAL

UNITED STATES SENATE,
Washington D.C., November 14, 1977.

Hon. WALTER F. MONDALE,
President, U.S. Senate.

DEAR MR. VICE PRESIDENT: Pursuant to Public Law 86–42, approved June 11, 1959, and as chairman of the Senate delegation, I have the honor to submit a report on the 18th meeting of the Canada-United States Interparliamentary Group, which was held in Victoria, British Columbia from May 27–31, 1977.

Sincerely yours,

WILLIAM D. HATHAWAY,
U.S. Senator.

CANADA–UNITED STATES INTERPARLIAMENTARY GROUP

Background

The basic authority for U.S. participation in the Canada-United States Interparliamentary Group is contained in Public Law 86–42, which was adopted on June 11, 1959. Under the provisions of this law, not to exceed 24 Members of Congress (12 from the Senate and 12 from the House of Representatives) are appointed to meet annually with representatives of the Canadian Parliament "for discussion of common problems in the interest of relations between the United States and Canada." The meetings are held alternately in Canada and the United States.

Composition Of Delegations

The U.S. delegation to the 18th meeting of the Canada-United States Interparliamentary Group consisted of the following Senators and Representatives:

From the Senate: Lee Metcalf, Montana; Mike Gravel, Alaska; William D. Hathaway, Maine; John C. Culver, Iowa; Patrick J. Leahy, Vermont; John A. Durkin, New Hampshire; Paul S. Sarbanes, Maryland; Carl T. Curtis, Nebraska; and Ted Stevens, Alaska.

From the House of Representatives: Edward P. Boland, Massachusetts; Dante B. Fascell, Florida; Harold T. Johnson, California; Sam M. Gibbons, Florida; James M. Hanley, New York; Lloyd Meeds, Washington; John J. LaFalce, New York; James Cleveland, New Hampshire; Robert C. McEwen, New York; Larry Winn, Jr., Kansas; and William F. Goodling, Pennsylvania.

Senator Hathaway and Representative Fascell served as Co-Chairmen of the U.S. delegation.

The Canadian delegation was composed of the following:

From the Senate: Daniel Lang, Ontario; Rheal Belisle, Ontario; Jacques Flynn, Quebec; John Godfrey, Ontario; Paul Lafond, Quebec; Alan A. Macnaughton, Quebec; Josie Quart, Quebec; and George van Roggen, British Columbia.

From the House of Commons: Martin O'Connell. Ontario; Mr. Peter Bawden, Alberta; Mr. Herb Breau, New Brunswick; Miss Coline Campbell, Nova Scotia; Mr. Gaston Clermont, Quebec; Mr. Robert Daudlin, Ontario; Mr. Jake Epp, Manitoba; Mr. Stuart Leggatt, British Columbia; Mr. David MacDonald, Prince Edward Island; Mr. Heath Macquarrie, Prince Edward Island; Mr. Alan Martin, Ontario; Mr. Donald Munro, British Columbia; Mr. Douglas C. Neil, Saskatchewan; Mr. Marcel Prud'homme, Quebec; Mr. Gilbert Rondeau, Quebec; and Mr. Ian Watson, Quebec.

Senator Lang and Mr. O'Connell served as Co-Chairmen of the Canadian delegation.

The Honorable Renaude Lapointe, The Speaker of the Senate, accompanied the delegation in her capacity as an Honorary President of the Canadian Section.

Organization of Meeting

The 18th meeting of the Canada-United States Interparliamentary Conference was formally opened by the Honorable D. Edward Smith, Speaker of the British Columbia Legislative Assembly, at a plenary session held in the Provincial Museum on May 28, 1977. Thereafter, for discussion purposes, the delegates were divided into three committees. Set forth below are the agendas and reports of those committees, as well as the names of the United States and Canadian delegates who served on each committee.

COMMITTEE I—ENVIRONMENTAL ISSUES

1. Transboundary pollution issues:

(*a*) Garrison, Skagit, Dickey Lincoln Dam, St. John River, air pollution, Champlain-Richelieu, Flathead.

2. Coastal pollution issues:

(*a*) East coast tanker hazards, Eastport.

(*b*) West cast tanker problems—Puget Sound, Kitimat, the 4-prong traffic control system, Trident submarine.

(*c*) Beaufort sea drilling risks.

(*d*) Possibilities or prospects of unilateral, bilateral, or multilateral regulation.

3. Great Lakes' issues:

(*a*) Pollution Issues—PCB's, DDT, Upper Lakes (IJC) report.

(*b*) Progress under Great Lakes Water Quality Agreement.

(*c*) Levels (implications of the Federal-Quebec report on the levels around Montreal).

(*d*) Chicago diversion.

(*e*) Bilateral fishing problems.

4. Bilateral implications of the 200-mile limit:

(*a*) Fisheries, hydrocarbons and the salt water boundaries.

The Committee on Environmental Issues was cochaired by Senator Daniel Lang and Representative Dante B. Fascell. Representing the Canadian delegation, in addition to Senator Lang, were Senators Macnaughton and Quart and Members of the House of Commons, Campbell, Leggatt, Munro, Rondeau, and Watson. Other members from the U.S. delegation, in addition to Representative Fascell, were Senators Leahy and Stevens, and Representatives Boland, McEwen, and Meeds. Other Members of both delegations also participated actively in discussions of the various issues considered by the committee.

COASTAL POLLUTION ISSUES

1. East Coast

The first item discussed by Committee I was a proposal by the Pittston Co. to build an oil refinery at Eastport, Maine. Canadian delegates indicated that recent studies confirmed the severe hazards to navigation which would confront tankers bound for Eastport

which would have to pass through Head Harbour passage. The passage, which is only 1,800 feet wide at one point, is often clouded in fog, contains dangerous shoals, and has dangerous currents. Because of these dangers and the threat of serious environmental damage from an oilspill, Canadian delegates expressed the belief that they did not think it was possible to provide adequate safeguards which would permit tanker traffic in the region, which contains rich fishing grounds and is an important tourist center. In view of what was deemed an unacceptable hazard, Canadian delegates stated that Canada was prepared to impose stiff regulatory requirements on vessels which would have to pass through Canadian waters to reach Eastport. However, there is some question as to whether these waters are Canadian or international. If the latter, then Canada would not have regulatory authority.

The U.S. delegates noted that pressure for a refinery had decreased and pointed out that a Maine environmental agency has made Canadian approval of the refinery a requirement for the project.

2. West Coast

Discussion of environmental pollution problems on the Pacific coast centered on problems related to U.S. shipment of Alaskan crude oil to the lower 48 States. A U.S. delegate briefly described the need for Alaskan crude oil, particularly at refineries in the Middle East which were losing access to Canadian crude oil, and outlined alternative ways for delivering the oil from Alaska. The alternatives were: (*a*) By tanker to Los Angeles; (*b*) by tanker to Port Angeles on the southern side of the Straits of Juan de Fuca in Washington; (*c*) by tanker through the straits of Juan de Fuca and Puget Sound to Cherry Point, Wash.; or (*d*) by tanker to Kitimat, British Columbia and thence by pipeline to the United States. A Canadian delegate said that a fifth alternative was to transport the oil by rail through Canada to Cherry Point and urged that this proposal be given serious consideration. A U.S. delegate explained that at present it appears that the oil will be shipped to Washington and then by pipe to other areas of the United States. It was pointed out that a Washington State law which restricted the size of tankers in Puget Sound to 120,000 tons was not upheld in a Federal court and that the entire matter is now before the U.S. Supreme Court for review. Restriction of tanker size could have an impact on the economic viability of the tanker route to Cherry Point. Comment was also made about recent elections in Washington in which an environmentalist Governor was replaced by a new Governor who favors shipment of oil to Cherry Point, where plans are well underway for enlarging port facilities. A U.S. delegate pointed out that new U.S. safety requirements for tankers would insure a lesser environmental threat to the Pacific Northwest area than would result from transits by non-U.S. flag vessels.

Canadian delegates reiterated their serious concern over possibly severe environmental damage resulting from oil spills in the area. They indicated that the Canadian Federal Government was conducting a review of the possible environmental impact of the Kitimat route and other Canadian alternatives but warned that these routes also had serious problems. In view of the risks to the environment from all of the various alternative routes, Canadian delegates urged the United States to upgrade its navigation assistance program in the area of the

straits of Juan de Fuca and suggested that the currently voluntary vessel tracking system in the area be expanded and made compulsory. Members of both delegations took note of the need to plan in advance for possible accidents by agreeing on contingency plans, by establishing procedures for determining liability and compensation, and by increasing research in how to control oilspills. Both delegations agreed that closer cooperation in all matters relating to the prevention and control of environmental accidents was highly desirable and that each delegation should urge its respective governments to give these subjects priority attention.

A Canadian delegate expressed his personal concern over possible radiation hazards related to a U.S. Trident submarine base at Bangor, Washington. The delegate indicated that the Canadian Government did not seem concerned, but indicated his own concerns relating to navigational hazards which might result in an accident and to the fact that existence of the base might increase the chances that the region would be subject to retaliatory attacks in a nuclear war. The U.S. delegates described the purpose and functions of Trident submarines and their importance in terms of both U.S. and NATO strategy. It was pointed out that the threatening aspect of these vessels was their deployment at sea and that in the event of war they would operate independently of their bases. The U.S. delegates indicated their belief that the existence of the base would have virtually no impact on a potential enemy's targeting strategy. As for environmental concerns, a U.S. delegate indicated that the base was constructed with a maximum of environmental safeguards. The delegate further indicated that any chance of radiation leaks as the result of a collision were minimal.

3. Arctic—Beaufort Sea

Discussion of environmental concerns in the Arctic area centered on Canadian drilling in the Beaufort Sea and the risks to the environment which might have an adverse impact on Alaska. Canadian delegates admitted the serious risks of drilling for oil and gas in the transition zone between the polar ice pack and ice anchored to a land mass. Canadian studies indicate that in the event of an accident, as much as 2 years could go by before relief would be effective. This would result in serious damage to wildlife. Despite these serious risks, the Canadian Government had approved drilling in the Beaufort area and might do so again. The Canadians indicated, however, that, as a result of the serious risks, the drilling was being done on a highly regulated basis and only after consultation with the United States. Taking into account U.S. criticism and technical advice, the Canadian Government has shortened the drilling season to allow repairs in the same season in which any accident might occur and was allowing U.S. technical advisors to be present to monitor the drilling. In any event, a Canadian delegate indicated that most damage from any accident would be on the Canadian side.

A U.S. delegate expressed the concern of Alaskans over possible damage from a spill and over the impact a spill would have on future exploitation of Arctic oil and gas resources. He indicated that Alaska had canceled similar exploratory drilling and was now cooperating with the Federal Government on an environmental impact study of such drilling. The U.S. delegate stressed that there was no urgent need for the oil and that in any event there was no technology to recover

the oil or gas if it were found. He suggested that the drilling could wait for improved technology and said that this would provide time for concerned Arctic States to discuss drilling and its implications perhaps through a mechanism such as a Joint Commission of Arctic States. He reiterated his concern that a premature accident might preclude the future exploitation of Arctic oil and gas.

Both delegations agreed that any approval of drilling by Canada should insure sufficient time for the drilling of relief wells in the event of an accident even if this meant further curtailing the already short exploratory drilling season.

GREAT LAKES ISSUES

The U.S. delegation reported on the much higher degree of compliance by the United States with the Great Lakes Water Quality Agreement as a result of the completion of funding for many projects previously delayed by Presidential impoundments of funds. While noting that more needed to be done in certain areas, the Canadian delegation expressed its appreciation for the recent speedup in U.S. efforts. A Canadian delegate pointed out the impact of the differing legal systems in the two countries on the speed of application of environmental standards He noted that the process in the United States was slower because of more frequent, lengthy lawsuits and expressed his hope that this issue would be included in discussions between the two governments on extension of the water quality agreement. Both sides agreed that the current review of the agreement by the two governments should afford new opportunities for joint action to further improve the quality of the lakes. Serious concern was expressed on both sides about the level of industrial pollutants, particularly in Lake Ontario. Specific pollutants mentioned were mercury, Mirex, and PCB's. A U.S. delegate noted that the two countries did not have similar quality standards for the levels of pollutants that would be permitted and expressed the hope that joint standards could be established.

The U.S. delegates expressed their concern over the level of Canadian industrial pollution and Canadian delegates expressed their belief that much was being done to resolve the problem. A U.S. delegate proposed that the reassessment of the water quality agreement should concern itself with pollution resulting from runoffs and further proposed that the manufacture of Mirex be banned in the Great Lakes region.

With respect to water levels, it was agreed that past problems relating to high water levels were no longer so immediate, and delegates from both sides expressed concern that water shortages might create power generation or shipping problems if a drought in the Lake Superior basin were prolonged. A Canadian delegate did report on efforts to prevent future flooding in the area where the St. Lawrence and Ottawa Rivers merge. He indicated that Quebec Province and the Canadian Government were cooperating on a plan to permit impoundment of Ottawa River waters and to speed outflows through the Lachine Rapids. A Canadian delegate expressed concern that recent congressional actions might result in increased diversions of Lake Michigan waters from the Great Lakes. A U.S. delegate stated that, in view of the low water level problem, no increased diversions were

98-986—77——2

anticipated and that currently only research was going forward. The U.S. delegate agreed that this was a matter for concern and that careful research was necessary. He said that U.S. law will not permit increased diversions during periods of low water levels. A Canadian delegate said that, while Lake Michigan was solely within the United States, he was sure that Canada would consider the United States responsible for any lost power generation resulting from increased diversions at Chicago. There was also a brief discussion of problems relating to possible extension of the Great Lakes winter shipping season.

TRANS-BOUNDARY POLLUTION ISSUES

1. Garrison Diversion Project

A Canadian delegate reviewed Canadian objections to the Garrison reclamation project in North Dakota and expressed concern over the possible adverse impact of the project on the Souris and Red Rivers.

The Canadian delegation expressed satisfaction with President Carter's decision to restrict funding for the project and to modify it to meet Canadian objections. Appreciation was expressed for efforts by Congressman Fascell and others to support the Canadian position with respect to the Lonetree dam and reservoir.

A U.S. delegate described the status of the project and indicated that under a court order only certain work can be done, such as completion of the McCluskey Canal. Under the terms of the court order no further work can be done until a comprehsnsive impact statement is completed and further action is taken by Congress. Another U.S. delegate indicated that $18 million recently approved for the project by a House subcommittee would not affect flows into Canada and would not be used until completion of a report by the International Joint Commission on the project. A third U.S. delegate pointed out that this project remained a hot political issue in the United States and indicated that the Canadians could not yet assume that their position would prevail.

2. Skagit River Valley

Seattle's need for more electric energy has led to pressure to raise the height of the Ross dam on the Skagit River. An agreement between the city of Seattle and the government of British Columbia permits raising the height of the dam, which would flood up to 9 miles of the Skagit River valley in Canada. Because of environmental concerns, British Columbia would like to rescind the contract to raise the dam. Both delegations agreed that there should be renewed attempts by the interested parties in the region to resolve this issue. Following discussions of specifics of the Skagit case, there was a general discussion of the need for planning the future use of North American water resources on a joint basis.

3. Dickey Lincoln project

A U.S. delegate reported that the proposed dam on the upper St. John River which was once canceled is now the subject of renewed interest. An environmental impact statement is now being prepared on the project, and members of the U.S. delegation stated that the project would be reevaluated when that statement becomes available. The project would result in the flooding of some 5,000 acres in Quebec, and the impact that would have on the quality of St. Johns River

water was of concern to Canadian delegates. A Canadian delegate described a report by the International Joint Commission (IJC) which recommended a St. Johns River Water Quality Agreement and which would seem to suggest that there should be no construction until the impact on the whole river basin has been evaluated. It was agreed that the IJC should begin a comprehensive study of the basin without waiting for the U.S. environmental impact statement.

4. Champlain-Richelieu

Flooding in Quebec led to a Canadian proposal to construct a fixed weir in the Richelieu River. This has led to U.S. concern over the impact the structure might have on water levels and the environment in Lake Champlain. It was agreed that both sides should await the results of a study by the International Joint Commission scheduled to be completed by December 1977.

5. Flathead River

The U.S. delegation expressed its continuing concern over possible environmental damage to the Flathead River in Montana as a result of coal mining operations in Canada. A U.S. delegate expressed his concern that the Boundary Waters Treaty might not afford ample protection to the river which is designated as "wild and scenic." Canadian delegates described their applicable restrictions on mining. They indicated that there was considerable concern in Canada as well over any possible pollution of the Flathead. It was agreed generally that both governments should consider expanding the jurisdiction of the IJC to encompass such problems as the Flathead and matters relating to air pollution.

HARP SEALS

Members of the Canadian delegation expressed concern over a resolution recently adopted by Congress which calls on Canada to reassess its policy permitting the killing of baby seals. Canadian delegates were particularly concerned that the Congress had acted without seeking the Canadian point of view. A Canadian delegate stated that the Canadian quota had been set with the overall conservation of the herd in mind; that 3,000 people earn their livelihood from the seal industry; that the killing is done in a manner perhaps more humane than seal killing in the United States; that the killing of seals and the resulting management of the herd size benefits the total food chain by preventing excessive fish kills by seals; and that the campaign against seal killing is financed by those who will benefit from its end. The U.S. delegates agreed that there should have been attention paid to the Canadian viewpoint but doubted that the passage of the resolution could have been prevented.

IMPLICATIONS OF THE 200-MILE LIMIT

1. Boundaries

Due to time constraints, the discussion of the implications of the extension of resource jurisdictions to 200 miles by both countries was short. With respect to the east coast and the important fishery resources of the Georges Bank, both sides noted the differing claims of both governments and urged expeditious negotiation of a final settlement. With respect to the west coast, the U.S. delegation noted that

issues are complicated by the nature of salmon migration and Indian claims to the resource. It was agreed that the intense feelings of fishermen on both sides further complicated the issue. A U.S. delegate suggested that perhaps a regional United States-Canadian council could work out a satisfactory solution. Both sides agreed that on the west coast, as well as the east, every effort should be made to jointly resolve outstanding boundary questions as rapidly as possible.

2. Deep Seabed Mining and Law of the Sea

A Canadian delegate expressed concern that the United States might proceed to authorize corporate deepsea mining despite the fact that the issue was still under consideration in the Law of the Sea Conference. The delegate feared that a unilateral U.S. action would wreck chances for a new international regime. A U.S. delegate expressed his opinion that there was not much support within the United States for a heavily bureaucratic international regime, that the negotiations were going too slowly, and that the United States was not proceeding too quickly and had to protect its own interests.

COMMITTEE II—TRADE AND ECONOMIC ISSUES

1. Bilateral trade problems:
   (*a*) Automotive trade.
   (*b*) Tourist trade.
   (*c*) Non-tariff barriers: quotas, DISC, countervailing, and Canadian regional subsidies.
2. Cross-border workers.
3. The St. Lawrence Seaway tolls.
4. Developments in the cross-border investment climate:
   (*a*) Provincial jursidiction in resource area: potash
   (*b*) F.I.R.A.
   (*c*) Access to U.S. capital markets for borrowing.
5. Cable deletion.
6. Arab boycott.
7. Cuba.

The Committee on Trade and Economic Issues was cochaired by Hon. Martin O'Connell and Representative Sam Gibbons. Other members from the Canadian delegation were Senators Rheal Belisle, Jacques Flynn, and John Godfrey, and members of the House, Gaston Clermont, Robert Daudlin, Jake Epp, and Heath Macquarrie. Also representing the U.S. delegation were Representatives John LaFalce, John Cavanaugh, James Cleveland, and Senators William Hathaway and Carl Curtis.

UNITED STATES-CANADA AUTOMOTIVE PRODUCTS TRADE AGREEMENT

In 1965 Canada and the United States signed the United States-Canada Automotive Products Trade Agreement, which provides essentially for duty-free trade in new cars, buses, and trucks, and original automotive parts between the United States and Canada. The objectives were the creation of a broader market for automotive products within the full benefits of specialization and large-scale production could be achieved and the liberalization of United States and Canadian trade in a way that the industries of both countries

could participate on a fair and equitable basis in the expanding market of the two countries.

The main concern expressed by the Canadians over the automotive agreement has been the sizable trade deficit Canada has run in recent years ($1 billion in 1974, $1.6 billion in 1975, and an estimated $1 billion in 1976.) They are particularly concerned over developments in the automotive parts industry, which is where the deficit is built up.

There was general agreement among the members of Committee II that, overall, the automotive agreement has been a success and has benefitted both countries. While Canada is currently experiencing an unfavorable automotive trade balance, there was some feeling that this was due mainly to the unusual economic situation since 1974, with the recession in the United States reducing demand for Canadian automotive products but the relatively stronger Canadian economy in 1974–75 continuing demand for U.S. products.

The point was made that the auto pact should be judged by what would have happened in the absence of an agreement. During the first 10 years of the pact, Canadian production of motor vehicles almost doubled from 846,200 units in 1965 to 1,424,500 units in 1975 (having declined from a 1973 high of 1,574,900). Over the same period, the value of U.S. exports of all automotive products to Canada grew from $929 million to $7.3 billion, while Canadian exports to the U.S. increased from $247 million to $5.7 billion.

Although there have been suggestions that the automotive agreement should be renegotiated, there was a general consensus among the members of Committee II that a total renegotiation was unnecessary and would be somewhat risky. At most, what is needed is minor alterations in the existing pact.

Canadians expressed concern that the Canadian automotive industry was less efficient than the United States, that in the future Canada would not receive adequate new investment, and that Canada needed more R. & D.

This analysis was expanded on to include concern that the entire North American automotive industry is technologically behind the Western European and Japanese industry and that an effort, particularly more R. & D., is needed to bring the North American industry up to par.

BILATERAL TAX ISSUES

The matter which drew the greatest interest and discussion in Committee II was the recent changes in the tax laws of both countries.

602—Convention tax

The Canadians were concerned over section 602 of the 1976 Tax Reform Act, which restricts the tax deductions available for business conventions held outside U.S. borders. They noted that already in the first quarter of 1977 nearly $20 million worth of U.S. convention trade in Canada has been canceled, and the predictions are that this figure could reach $100 million by the end of the year. (This latter figure may be somewhat inflated, as the $20 million figure undoubtedly includes conventions that would have been held later in the year and, if a 1977 convention were to be canceled in Canada and rescheduled elsewhere, it would have been done in the first quarter). This development is particularly vexing to the Canadians in light of the fact that

their overall tourist trade with the United States has progressed from a surplus of $134 million in 1974 to deficits of $255 million in 1975 and of $604 million in 1976.

The Americans responded that the tax change was never intended to affect Canada or conventions held in Canada, but to reduce the widespread abuse of the tax deduction for business conventions. Many alleged business conventions conduct little business and are, in fact, vacation trips. There have even been advertisements that "we can find a convention wherever you're traveling."

The American delegates further noted that the change in the U.S. tax law was, in fact, based on a similar provision in the Canadian tax laws, which restrict tax deductions for conventions held overseas. Furthermore, the terms of the U.S. law are not very odious. Specifically—

A taxpayer may deduct only two foreign conventions a year;

The transportation cost cannot exceed coach or economy fare;

One-half the convention days must be devoted to business-related activities;

Individuals must attend two-thirds of the business activities;

Deductible subsistence expenses cannot exceed the per diem rate allowed for U.S. civil servants;

The individual must submit two written statements, one signed by the individual and one by an officer of the sponsoring organization, detailing the number of hours of each day devoted to scheduled business activities.

The Canadians replied that if fraud was the real target of the convention tax change, then it should be applied across the board and not just to foreign conventions. They further noted that the Canadian law permits deductions for conventions held overseas if there is a real reason for holding the meeting outside Canada, such as that the membership is broader than just Canadian or for a group of medical doctors to examine a facility outside Canada. The Canadian tax law does not require the extent of paperwork and reporting, and it is probably this requirement and the low per diem rate which has been most responsible for the cancellation of conventions in Canada. It was noted that there are many associations with joint United States-Canadian membership which should be allowed to meet in Canada but which are likely, to now hold their meetings in the United States in order to avoid the complicated reporting requirements.

In general, the Americans felt that the Canadian point of view had considerable validity and expressed regret that, at the time of congressional consideration of the convention tax, they had not been aware of the potential impact on Canada. The members discussed various ways in which the situation could be rectified.

One alternative is to provide for a special exemption for Canada, but the Canadians said they were not seeking special treatment.

A second way is to change the law to apply it to all conventions, both foreign and domestic. While the Canadians felt this was equitable, there was doubt among the Americans whether this was politically feasible.

A third method is to deal with it in a broad tax reform measure, on which the new administration is currently working.

A fourth route is to consider it in a bilateral tax treaty, which is now being negotiated.

A final route, which could be handled through the above mechanisms, is to link the Canadian concern over section 602 to the U.S. concern over C–58.

C–58—TELEVISION ADVERTISING TAX DEDUCTION

In 1974 the Canadian Government proposed two steps to further its objective of promoting uniquely Canadian television program production that it considered was being frustrated by the syphoning off of Canadian advertising revenue by U.S. border stations. Both measures impacted adversely on U.S. border television stations, which receive about $20 million a year in Canadian advertising.

One step, implemented by the Canadian Radio-Television Commission, has to require Canadian cable systems to delete commercials from the American programs they import. This policy obviously worked to the disadvantage of U.S. border stations and was the subject of intense discussions at the 17th meeting of the Canadian-United States Interparliamentary Group and between the two governments. In January 1977 the Canadian cabinet recommended a moratorium on the advertising deletions, and the American delegates to the 18th meeting of the Canadian-United States Interparliamentary Group expressed contentment with the moratorium.

The second step was to introduce legislation which would prevent Canadian companies from writing off as a business expense expenditures for advertising on foreign television stations. This proposal was enacted into law in 1976 as "C-58" and was the subject of considerable discussion in Committee II. The American delegates expressed considerable consternation over C–58 because it has deprived U.S. border stations of advertising revenues and because, if the Canadian Government was really concerned about the cultural impact of television, it should simply prevent the entire signal from crossing the border, not just the advertising signal.

It was further related by one American delegate that he had been told there was in the process of being implemented a new policy which would eliminate the need for deletion or C–58, but would accomplish the same purpose of reducing the flow of advertising revenues into the United States. This policy is to cease purchasing the signal from border stations and instead use noncontiguous stations as the source for the signal, thereby reducing the incentive to purchase advertising on the U.S. station. The U.S. delegate expressed considerable concern over such a policy. The Canadians responded that this was not a policy which had been discussed within the government or of which they were aware.

There was considerable discussion in Committee II over the linking of the television advertising issue with the convention tax matter. The Canadians expressed the opinion that one reason 602 was enacted was as a response to C–58 and in order to provide leverage with respect to C–58.

The Americans responded that such was not the case at the time of enactment, that the provision was aimed at reducing the fraud involved in business convention tax deductions, and that the impact on Canada was not even considered, but that the two issues did subsequently become linked when the Senate considered and rejected an amendment to reduce the impact of section 602 on Canada. There

was general agreement that the two issues are now inexorably linked and that movement on one will require movement on the other. On the economic side, section 602 probably costs the Canadians about four to five times in lost convention revenues what C–58 costs the United States in advertising revenue losses.

NONTARIFF BARRIERS

The discussion of nontariff barriers focused on the U.S. DISC and the Canadian regional development incentives. In fact, neither policy is causing any serious problems. DISC has affected only $1 billion of the total U.S. corporate tax of some $50 billion and was changed by the Congress last year so that in the future it will affect only about $300 million worth of revenues and will only apply to incremental exports. Furthermore, the impact on Canada has been minimal because Canada reacted to DISC by reducing the business tax from 50 percent to 40 percent. As for Canadian regional development incentives, they have resulted in only one bilateral controversy, the Michelin Tire case, which resulted in the United States imposing countervailing duties.

There was general agreement that the two countries were working well together in the GATT negotiations. The Canadians expressed concern over escalating tariff barriers, which give preference to raw material imports over manufactured imports, and thereby hinders the Canadian effort to develop a mature secondary industrial community. They consider their current balance of trade imbalance to be unacceptable in the long-run and that the main route to correct it is to keep more of the raw materials at home where they will be processed before being shipped to other countries.

ST. LAWRENCE SEAWAY

Committee II considered the matter of the deficit being incurred by the operation of the St. Lawrence Seaway. There was concern on the Canadian side over the rising deficit (the bulk of the locks are on Canadian territory) and on the American side over the possible diversion of traffic by an increase in the tolls. While both countries have proposed forgiveness of part of the debt owed on the seaway, this will still not allow operating expenses to be covered. There was general agreement among the members of Committee II that periodic toll increases will be necessary but that possible diversion to other modes of transportation should be taken into consideration in raising tolls. The issue is not one of principle but one of how to finance the cost of the seaway.

CROSS-BORDER WORKERS

Cross-border workers was also a topic of discussion by Committee II. While the number of workers crossing the border has declined in recent years, it is still a factor in some border communities. In Maine, there is concern over Canadian woodsmen being employed where U.S. woodsmen could do the job, but in many cases the Canadian woodsmen are closer to the work site and there are insufficient U.S. woodsmen available.

There is also concern that, when unemployment is high in the United States, the U.S. bureaucracy uses paperwork as a barrier to the employment of Canadian workers, mainly through making it difficult to certify that there are no qualified U.S. workers available. There was general agreement that this is not really a Canadian-United States issue but more an internal U.S. matter.

ANTIBOYCOTT POLICY

Committee II discussed the antiboycott policies of the two countries. The American delegates explained the genesis and details of the recently enacted amendment to the Export Administration Act that expands the 1965 policy statement opposing foreign boycotts of countries friendly to the United States. The new law would prohibit certain actions by U.S. persons to support the secondary and tertiary aspects of such boycotts, including: Refusing to do business with any person; refusing to employ or otherwise discriminate against any U.S. person on the basis of race, religion, sex, or national origin; furnishing information with respect to the race, religion, sex, or national origin of any U.S. person; or, furnishing information with respect to a business relationship with the boycotted country. There are certain exceptions to the prohibitions, aimed at preventing the law from impacting on a primary boycott, which permit: Compliance with certain import, export, and shipping regulations of a boycotting country; compliance with visa requirements; compliance with unilateral selection of the products or subcontractors to be included in a contract; and compliance by a U.S. person resident in a foreign country with the laws of that country with respect to his activities in that country. This new law applies to controlled foreign subsidiaries of U.S. companies with respect to their involvement in U.S. interstate and foreign commerce.

On January 21, 1977, the Canadian Government issued a directive from the Department of Industry, Trade, and Commerce setting forth the Canadian policy on International Economic Boycotts. The policy is to combat any discriminatory effects which such boycotts may have on Canadian firms and individuals. It is to be implemented through denying governmental support and services to any company or individual with respect to any transaction which would require Canadian companies or individuals to engage in discrimination based on race, religion, or national or ethnic origin or to refuse to purchase from or sell to any other Canadian company or to any country. The support and services to be denied include fairs and missions programs, the Programs for Export Market Development, the General Adjustment Assistance Program, and the direct services normally rendered in Ottawa, in regional offices in Canada, and in foreign posts.

Both policies are aimed at preventing foreign boycotts from impacting on Canadian and U.S. citizens. The main difference is that the Canadian policy is implemented through denial of benefits, while the U.S. policy is implemented through the application of penalties and is probably more extensive in effect. Determining the impact of the new U.S. law on U.S. subsidiaries in Canada is difficult and must wait the issuance of the U.S. rules and regulations.

QUEBEC

The members of Committee II also discussed the impact of the separatist movement in Quebec. While there are certain factors to indicate that the Parti Quebecois does not have the necessary support to move toward separatism—it received 41 percent of the vote and campaigned on the need for good government rather than on separatism, and the Liberal Party won the recent by-election for parliament in Quebec—many Canadians are taking very seriously the call for separatism. Some people are saying that it may lead to a new form of government. While the rest of Canada definitely wants Quebec to remain within Canada, there is also a general feeling that all the provinces must be equal and that special status for Quebec is unacceptable.

The U.S. interest in Quebec is more than minimal, with the United States having some $5 billion invested in business in Quebec and some $7 billion in yearly trade with the province. Separatism would cause a considerable jolt for U.S. relations with Canada, both in the economic area and in defense relations. There was some concern expressed that separatism would lead to the United States increasing its economic influence over Canada.

The American delegates expressed dismay over the prospect of separatism and determined that the best policy for the United States to follow would be to avoid any blunders that might encourage the movement.

COMMITTEE III—ENERGY ISSUES AND MULTILATERAL CONCERNS

1. Energy:
   (*a*) Developments in bilateral trade, supply, price, gas, oil, coal, electricity, uranium.
   (*b*) Pipeline route alternatives—regulatory requirements and timetable.
   (*c*) Conservation programs, reserves and storage facilities.
   (*d*) Exploration developments (Beaufort, East coast, Arctic, Fundy, power).
   (*e*) International Aspects—IEA, CIEC.
2. Common multilateral concerns:
   (*a*) Nuclear proliferation—NPT, IAEA safeguards, Canadian safeguards, SALT, U.S. legislative proposals.
   (*b*) North-South dialog.
   (*c*) CSCE and the Belgrade meeting in June 1977; monitoring the implementation of the Final Act.
   (*d*) Southern Africa questions.

The Committee on Energy Issues and Multilateral Concerns was cochaired by David MacDonald of the House of Commons and Congressman Harold T. Johnson. In addition to Mr. MacDonald, the Canadian delegation was represented by Senators Lafond and Roggen and members of the House of Commons Bawden, Breau, Martin, Neil, and Prud'homme. Besides Mr. Johnson, the U.S. delegates who sat on Committee III were Senators Metcalf, Gravel, Culver, Durkin, and Stevens and Representatives Hanley, Winn, and Goodling. Several other members of both delegations participated in the discussions.

ENERGY

The American cochairman of Committee III opened the discussion on energy by pointing out that the Carter administration had proposed the establishment of a new Department of Energy in order to secure the effective management to assure a coordinated national energy policy. That proposal, he said, has been acted on by the Senate and is pending in the House of Representatives.

Natural gas pipelines

With respect to the development of oil and gas in Alaska, an American delegate reviewed the status of the various natural gas pipeline proposals. Three competing groups have applied for a certificate of public convenience and necessity to construct and operate a system to transport natural gas from the North Slope of Alaska to the United States. They are the Alcan Pipeline Co., the Arctic Gas Pipeline Co., and the El Paso Alaska Co. The first two are overland systems and the third is a pipeline and tanker route. The American delegate stated that the Federal Power Commission has already made its recommendation to the President. That recommendation is that an overland system through Canada be selected, if such a route is made available by the Government of Canada on acceptable terms and conditions. However, the Commissioners were split on which overland route should be selected and concluded that, in the absence of an agreement with Canada, the El Paso pipeline and tanker system should be built. Members of the Canadian delegation felt certain that the National Energy Board of Canada would make a decision on a proposed route prior to September 1, 1977, when President Carter is expected to act on the recommendation of the Federal Power Commission. Within 60 days thereafter, by joint resolution, the Congress has to approve the President's decision.

One American delegate said it is crucial to make a decision on a route to transport natural gas from Prudhoe Bay to the United States. He mentioned that there is an estimated 26 trillion cubic feet of proven reserves in the Prudhoe Bay area and that it is of the utmost importance to get this gas to the United States where it is urgently needed. Another American delegate pointed out that the State of Montana currently relies on the province of Alberta for natural gas and concurred in the view that it is essential to move Alaskan natural gas to the northern tier States in the United States. In this connection, he observed that Montana would not be receiving any natural gas from Alberta after 1990, when present contracts terminate.

A U.S. delegate read a prepared statement in support of the Arctic Gas Pipeline Company proposal which calls for the construction of a natural gas pipeline along the Mackenzie River Valley to Alberta. It was pointed out, however, that Mr. Justice Thomas R. Berger, who conducted the Mackenzie Valley Pipeline Inquiry, recommended that construction of the pipeline be postponed for a period of ten years to allow adequate time to settle native claims and to establish the new institutions and programs that such a settlement would entail. In response, members of the Canadian delegation said the Government of Canada has the constitutional authority to authorize pipeline construction concurrently with its efforts to resolve the native claims issue.

Canadian energy reserves

A member of the Canadian delegation reviewed the current status of Canada's energy supply and demand, as well as that country's situation with respect to oil and gas reserves. As of January 1, 1976, he stated, Canada had reserves of 6.5 billion barrels of oil. He noted, however, that there is no indication Canada would be self sufficient by the 1980's. As a matter of fact, as one Canadian delegate observed, by 1985 Canada will produce 1.1 billion barrels of oil per day and consume 2.2 billion barrels per day. The situation with respect to natural gas is much better. The Canadians have 50 trillion cubic feet of proven reserves which should last 15 to 25 years at current rates of consumption. He added that almost 40 percent of Canada's gas production is being exported to the United States and that this represents only 5 percent of U.S. national consumption.

Drilling in Beaufort Sea

During a brief discussion on drilling in the Beaufort Sea, a Canadian delegate said he thought the Government of Canada would issue drilling permits for that area sometime this year. This prompted a member of the American delegation to argue for a delay in issuing permits until such time as appropriate technology has been developed so that wells can be drilled safely and subsea storage and delivery systems installed without risk to the environment. Another member of the American delegation agreed with this observation and suggested that an oil blowout in the Beaufort Sea might close out the Arctic to further exploration because of world indignation. A Canadian delegate replied that the wells are being drilled from three ships and that the technology for drilling is in place.

As a possible solution to the problem, an American delegate suggested that representatives of the drilling industries in Canada and the U.S. should discuss the matter and perhaps such a dialogue would prove helpful in finding ways to develop the technology needed to get oil out of the Beaufort Sea. The Canadian cochairman of Committee III agreed with this suggestion and offered to bring the matter to the attention of the appropriate people in Canada.

Oil pipelines

With regard to the problem of transporting Alaskan oil to the lower 48 states in the United States, an American delegate reviewed the three major proposals. First, the Standard Oil Company of Ohio (Sohio) plan would have tankers bring the oil to Long Beach, Calif., where it would enter a pipeline and be carried to the Arizona border. There it would link up with a pipeline that runs to Midland, Tex., where the oil would be transferred to pipelines going to refineries in the Midwest and on the Gulf Coast. Second, there is a proposal to build a pipeline from Kitimat, British Columbia to Edmondton, Alberta, where it would hook up to several existing pipelines so the oil could flow south and east to the U.S. and Canada. Third, the Northern Tier Pipeline Company proposes to build a crude oil transmission line from Port Angeles, Wash., across the northern tier of the United States to Clearbrook, Minn. Of the three proposals, one American delegate argued in favor of the Kitimat pipeline while another American expressed the view that the Northern Tier pipeline is very viable and feasible. A Canadian delegate observed, however, that

many people in Kitimat were opposed to the proposed project and that it would be difficult to get it approved at the local level.

Other energy related subjects discussed in Committee III were: (1) The storage facilities for crude oil and petroleum products in an abandoned iron ore mine on Bell Island off the east coast of Newfoundland; (2) coal trade between the United States and Canada; (3) possible use of wood to generate power; (4) the solar energy program in the United States; (5) coal slurry pipelines and the development of magneto-hydrodynamic power generation; (6) geothermal energy resources in the State of California; (7) nuclear power and the problems surrounding the disposal of nuclear waste; and (8) trade in uranium.

MULTILATERAL CONCERNS

Conference on security and cooperation in Europe

The Chairman of the House delegation reported on the Conference on Security and Cooperation in Europe (CSCE). He is also chairman of the joint Legislative-Executive Commission on Security and Cooperation in Europe which was established in June 1976 to monitor compliance with the Final Act signed by 35 nations in Helsinki on August 1, 1975.

The chairman reviewed the provisions of the final act which are under four headings known as "baskets." Basket one includes the so-called political-military confidence building measures (for example, prior notification of major military maneuvers and the exchange of observers at such maneuvers) and a declaration of principles guiding relations among participating nations. Basket two deals with economic, scientific, technological, and environmental cooperation. Basket three contains provisions to allow freer movement of people, information, and ideas between East and West. Basket four provides for followup meetings. The first such meeting is to be held in Belgrade in 1977, with the agenda and date to be determined at a preliminary meeting scheduled to be held in that city on June 15.

He said there is significant evidence that the Helsinki Conference has had an impact on the Soviet Union and he feels that continued pressure on the Soviets may bring them closer to compliance with the provisions of the final act with regard to human rights. He pointed out, however, that one should not expect any miracles to come from the Belgrade meeting, particularly if it becomes a forum for mutual recriminations.

He praised the commission concept as a vehicle to monitor compliance with the final act and stated that it would be very helpful to broaden the base of participation in future meetings dealing with the CSCE.

Nuclear proliferation

An American delegate stated that nuclear proliferation is an extremely controversial subject in the United States. In this connection, he said there are several major nonproliferation policy bills currently pending in the Congress, including H.R. 4409 and H.R. 6910. They are primarily designed to encourage U.S. efforts to get international agreement on more stringent nonproliferation conditions for transfers of nuclear technology, materials, and equipment and to strengthen the International Atomic Energy Agency and its system of safeguards.

Another American delegate criticized commitments by West Germany to supply Brazil with technology and equipment for fuel reprocessing and uranium enrichment, and by France to supply a fuel reprocessing plant to Pakistan. He added, however, that the U.S. Government has been somewhat inconsistent with respect to its nuclear export policies. For example, nuclear sales have been made to countries not party to the Nuclear Proliferation Treaty (Israel and South Africa) while other countries party to the treaty have been denied consideration. At the present time, he said, the main thrust of President Carter's program is to put a moratorium on domestic breeder reactors and defer indefinitely the commercial reprocessing and recycling of plutonium produced in nuclear power plants. In addition, the United States will seek to increase its capacity to produce enriched uranium so that it can supply the fuel to other nations, thus lessening their dependence on plutonium, and continue to embargo the export of equipment or technology that could permit uranium enrichment or chemical reprocessing. In this connection, concerning nuclear terrorism, it was suggested that the export of nuclear equipment and technology to Pakistan, Brazil, the Middle East and elsewhere presents a greater danger than the threat of a nuclear exchange and measures should be taken to reduce the possibility of terrorist acts to divert nuclear materials or to sabotage facilities.

SALT negotiations

A member of the U.S. delegation reviewed the current status of the SALT negotiations by pointing out that SALT I agreement between the U.S. and the U.S.S.R. is scheduled to expire on October 3, 1977. He said that both governments have been negotiating in an effort to reach a new agreement, and during a meeting held in Moscow from March 28–30, 1977, the United States made two proposals to the Soviet Union for further limiting the strategic arms of both countries. One proposal called for large reductions in the strategic delivery vehicles of both sides and restrictions on upgrading them qualitatively, and the other proposal called for equal ceilings on strategic vehicles on both sides. The Soviets rejected both of these proposals, taking the position that negotiations based on agreements made at Vladivostok in November 1974 should be resumed. In this connection, it was noted that the failure to reach a new SALT agreement on the basis of the Vladivostok terms has been due largely to the controversy over what relationship two weapons systems—the U.S. cruise missile and the Soviet backfire bomber—should have to the proposed agreements. Both countries take the position that their weapons system is not an offensive strategic delivery vehicle and therefore should not be included in the 2,400 such vehicles allowed under the terms of the Vladivostok accord.

The latest effort to break the stalemate on SALT took place when Secretary of State Vance and Soviet Foreign Minister Gromyko met in Geneva in the latter part of May. At the conclusion of that meeting Secretary Vance suggested that agreement had been reached on a negotiating framework to include three basic elements: (1) a new SALT II treaty which would remain in effect until 1985; (2) a protocol to SALT I to remain in effect for 3 years; and (3) a statement of general principles to govern subsequent agreements. With regard to future negotiations, the American delegate expressed the view that there is

a great deal of economic pressure on the Soviets to conclude another SALT agreement. Moreover, he said, if Brezhnev were to pass from the world scene, chances are it would take a couple of years for the Soviet leadership to stabilize enough to give any proposed new agreement the concentration it deserves.

Conference on international economic cooperation

Delegates who spoke about the Congerence on International Economic Cooperation (North-South dialogue) agreed on the significance of the conference and stressed the necessity for the developed and lesser developed countries to reach agreement on such matters as aid, trade, energy, commodities, private investment, and the international monetary system.

One delegate reviewed the Canadian aid program and said the most difficult task is to make the people understand why it is necessary to furnish assistance to under-developed countries. An American delegate agreed and stated that the United States faces a massive educational challenge not only insofar as the general public is concerned but in the Congress as well. He added that the real threats to world security are poverty, disease, hunger, overpopulation, et cetera, and if the developed countries don't move agreessively and more creatively, there will be continuing and more acute political instability in the lesser developed countries which can be exploited by the Soviet Union.

In response to an inquiry, an American delegate stated that the United States opposes the concept of the common fund and continues to support existing financial institutions. However, he said the Carter administration is willing to discuss stabilization of individual commodity prices and the possibility of later pooling the funds set aside for each commodity so that one might borrow from the other. Also, the U.S. view is that there are other sources of financing such as contributions by participating countries, export taxes, and commercial borrowing guaranteed by participating countries.

South Africa

A Canadian delegate summarized the situation in South Africa and expressed the view that as a result of events which have taken place there, more interest has been shown in that country and the situation in Africa generally. He felt there was a need to bring more pressure to bear on South Africa regarding Namibia in the hopes that some progress could be made toward achieving independence for that country.

All delegates who participated in the discussion on South Africa expressed strong opposition to that country's policy of apartheid.

Financial Statement

At the time of the filing of this report, the total amount of expenses incurred by the Senate delegation in connection with its participation in the 18th Canada-United States Interparliamentary Meeting is estimated to be approximately $5,500. A detailed report showing all expenditures will be filed with the Senate later in accordance with law.

○